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C O N F I D E N T I A L SECTION 01 OF 03 BEIJING 000550

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E.O. 12958: DECL: 01/25/2032  
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SUBJECT: HONG KONG: CG CUNNINGHAM'S MEETINGS IN BEIJING

REF: 05 BEIJING 18112

Classified By: Political Section Internal Unit Chief Susan A. Thornton.  
Reasons 1.4 (b/d).

Summary

1. (C) The Mainland's chief objective for Hong Kong is maintaining long-term political and economic stability, Government officials and scholars told Consul General James Cunningham during discussions in Beijing January 18-19. Hong Kong has seen significant positive development since the end of British colonial rule 10 years ago, said Chen Zuo'er, Executive Director of the Hong Kong-Macao Affairs Office. In addition to having one of the world's most liberal economies, Hong Kong enjoys an open political system, Chen remarked. Democratic reform, however, should come at a deliberate pace that poses no threat to stability. Scholars at a working dinner made similar points, adding that freedom should not just be measured by whether there is universal suffrage in elections for the Chief Executive. The academics also discussed the challenges Macao faces in balancing economic development and increasing investment in its casino industry and related fields. End Summary.

Hong Kong-Macao Affairs Office: Stability Is Key

2. (C) CG Cunningham's first call during his visit was with Hong Kong-Macao Affairs office Deputy Executive Director Chen Zuo'er January 18. Chen provided an upbeat assessment of developments in Hong Kong Special Autonomous Region (SAR) over the 10 years since the end of British colonial rule. Lauding the region as one of the most liberal economies in the world, Chen outlined Hong Kong's recent successes, including hosting a number of global forums and handling unexpected crises such as the late 1990s financial crunch and the SARS epidemic in 2003. In addition to economic openness, Hong Kong's citizens enjoy broad political rights, Chen remarked. But from Beijing's perspective, the failure of the Legislative Council (LegCo) to pass a constitutional reform package at the end of 2005 slowed Hong Kong's democratic transformation (reftel). (Note: The thrust of the package, which Beijing favored, was to gradually increase public participation in the election process without setting a specific date for universal suffrage. End note.)

3. (C) China approves of the performance of Chief Executive Donald Tsang, Chen said, adding that the Mainland hopes Hong Kong authorities proceed with political reform in a deliberate manner that is in line with the Basic Law and is conducive to long-term

stability. Describing Hong Kong as an "important bridge" in the growing links between China and the United States, Chen stressed that both countries have an interest in promoting prosperity and stability in the SAR. The Chinese side has noticed, however, that "certain officials" from the United States Consulate General in Hong Kong have made "inappropriate comments" on elections and the local political situation. Such statements are not in keeping with Vienna Convention provisions and harm the interests of the United States and China, Chen claimed.

14. (C) CG Cunningham emphasized that the United States continues to have considerable interests in Hong Kong and wants to see the region succeed both economically and politically. Acknowledging that American comments on democracy and freedom in Hong Kong have been known to make people in the SAR and in Beijing uncomfortable, CG Cunningham stressed that our vocal support for these principles around the world reflects the United States' real values and interests. In Hong Kong, we talk to representatives from all parties in the political spectrum. We do this not to take sides on complex questions but because continued political development is a crucial element in building a successful and stable future. While it is safe to say there is no consensus yet on what Hong Kong's political future should be, CG Cunningham observed, there is a broad public sense that there should be forward movement on political reform.

PCCW: Chen Deflects the Question  
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15. (C) Turning to investment issues, CG Cunningham asked Chen for his take on last year's controversial (and ultimately blocked) buyout bid foreign investors made for Richard Li's controlling stake in PCCW, Hong Kong's biggest telecommunications company. Chen deflected the question, claiming that as a Central Government official, it would be inappropriate for him to comment on specific business deals. As a general rule, however, Hong Kong is an international commercial hub where business operations are protected by "relevant laws and regulations." He declined to speculate about what kind of lessons international investors might take from this case. As far as the Chinese Government is concerned, "we always support Hong Kong's economic development," Chen concluded.

16. (C) CG Cunningham concluded the meeting by expressing interest in continuing their discussion, either when Chen visits Hong Kong or during a subsequent visit to Beijing. Chen was non-committal.

Universal Suffrage Should Come "Over Time"  
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17. (C) At a January 18 working dinner, Chinese scholars told CG Cunningham repeatedly that the Mainland's focus is on maintaining stability in Hong Kong. China Institute for Contemporary International Relations (CICIR) Hong Kong and Macao Studies Institute Director Xia Sihan stated that his center was created after the July 2003 demonstrations in Hong Kong with a mandate to pay more attention to the SAR's political problems and its relations with "outside powers." Because of China's history, sovereignty issues are particularly sensitive, Xia said. After initial difficulties following the SAR's return to Mainland rule, Hong Kong's economy has recovered and there is now every reason for Hong Kong to proceed on a stable economic tack. In this context, the

requirement for social stability is the same for Hong Kong and the Mainland, Xia stated.

¶18. (C) Guo Jianping, Director of the Central Party School's Taiwan, Hong Kong and Macao Institute, pointed to media stories regarding competition between Shanghai and Hong Kong to become Asia's financial hub and posited that Hong Kong's political system reform is not the most important factor in determining Hong Kong's future. Hong Kong's level of democratic development and freedom cannot just be measured by whether there is universal suffrage in elections for the Chief Executive, he said. A recent Heritage Foundation survey ranks Hong Kong ahead of Singapore in terms of economic freedom, he noted. Hong Kong should move from indirect to direct elections over time and in a deliberate way.

¶19. (C) Responding to the repeated assertions about the importance of stability in Hong Kong and the implication that political reform would imperil that stability, CG Cunningham noted that overemphasis on stability could itself over time be destabilizing. Hong Kong needs to develop a broader consensus on its political as well as economic future, and failure to move forward could undercut both the government and the stability that both the United States and China support.

#### Macao Developments

¶10. (C) Asked about the Mainland's perspective on developments in Macao, the scholars acknowledged concerns over how Macao would balance its economic development and handle increasing investment in its casino and associated industries. CPS's Guo said the Mainland is exploring the expansion of tourism to Macao, including the possible joint development of Hengxin Island near Zhuhai. CICIR's Xia expressed concern over potential negative ripple effects from Macao's financial sector. Citing the example of Banco Delta Asia's dealings with North Korea, Xia noted that any problem in Macao's financial system will certainly affect both Hong Kong and the Mainland. He asserted that BDA's troubles could be typical of behavior on the part of many financial institutions in the region, due to the murky regulatory environment of Chinese and other Asian banks. Xia suggested that United States assistance to improve the financial regulatory environment in Macao would be welcome.

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¶11. (C) CG Cunningham described close cooperation between United States and Hong Kong financial regulators and agreed that such cooperation would benefit Macao and increase confidence in its financial system and its ability to transparently handle large money flows from gambling and other industries. Xia asserted that the Mainland has much to learn from the development of the financial sector in Macao and Hong Kong. CPS scholar Li Yunlong asserted that the United States and Macao could usefully step up coordination and cooperation in the area of anti-money laundering.

¶12. (U) Both Guo and Xia invited CG Cunningham to speak at their institutes during future visits to Beijing.

¶13. (U) CG Cunningham cleared this cable.  
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